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# GUIDANCE NOTE

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**KING V – APPLICATION TO NON-PROFIT ORGANISATIONS**

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## Introduction

This guidance applies to non-profit organisations (NPOs) incorporated in various legal forms, including non-profit companies, charitable trusts, voluntary associations, clubs and charitable funds.

While many NPOs choose to register for NPO status under the Non-Profit Organisations Act (the NPO Act), this guidance is not limited to such entities only and applies more broadly to all organisations established for a public, community or altruistic purpose, regardless of whether they are formally registered under the NPO Act. Public Benefit Organisations (PBOs), as recognised under the Income Tax Act by the South African Revenue Service (SARS), refer to qualifying entities engaged in public benefit activities that may receive preferential tax treatment. This supplement applies to NPOs (as defined for purposes of this guidance) regardless of whether they are recognised as PBOs or not.

While the King V Code on Corporate Governance (the Code) is designed to be applicable across all organisations, its application to NPOs requires contextual interpretation. This is due to the diversity in legal forms, governing bodies, operational models and public interest impact. Some NPOs operate with limited staff and resources, while others manage large-scale programmes and budgets comparable to commercial or public entities.

This guidance paper provides a detailed interpretation of the Code as it applies to NPOs, outlining key nuances, points of emphasis and legislative considerations that may affect the practical implementation of each King V principle.

## Terminology

Term used in King V	Relevant term for NPOs
Organisation	The NPO in all its legal forms, including a non-profit company, charitable trust, voluntary association, charitable fund or similar entity.
Governing body	Board, council or other governing structure legally responsible for the oversight and direction of the NPO.
Members of the governing body	Directors, council members, trustees or equivalent positions serving on the governing body of the NPO.
Shareholder	Members - for NPOs with members. Where the NPO has no members, references to shareholders could loosely be interpreted as donors, sponsors or other providers of funding or capital.

Stakeholders

Includes donors, beneficiaries, employees, volunteers, partners, regulators, members, media, clients or customers, communities, suppliers and creditors.

## Typical corporate governance application considerations

The recommended practices of the Code apply to NPOs, with the following areas of emphasis or nuance.

### Principle 1: Leadership

**Principle 1: The governing body leads ethically and effectively as the focal point of corporate governance in the organisation.**

#### *Characteristics and values (Recommended practices 1-2)*

The legal duties of members of the governing body of an NPO are, as a matter of law, owed to the organisation itself and not the party or constituency by whom the member is appointed. This includes the duty to act in good faith and in the best interests of the NPO. In addition, the characteristics of ethical and effective leadership should guide all decision-making and interactions within and outside the organisation.

These legal and governance obligations stand regardless of whether members of the governing body of an NPO, in certain instances, act pro bono or for a minimal fee.

#### *Dimensions of governance obligations (Recommended practices 3-5)*

These recommended practices provide a guideline to the governance obligations of NPO governing bodies. It is particularly important for an NPO governing body to have a charter to outline its role and responsibilities.

#### *Performance evaluation of the governing body (Recommended practices 6-9)*

To ensure its ongoing effectiveness, regular performance evaluations of the governing body, its members and any committees should be undertaken. The results of these evaluations should be considered by the governing body and used to inform governing body development requirements, succession planning and improved governance practices towards continuous improved performance.

Depending on the size, nature and impact of the NPO, these evaluations could start with reflections on performance annually at a governing body meeting and evolve into a more comprehensive exercise as the NPO evolves.

## Principle 2: Ethics

**Principle 2: The governing body governs the ethics of the organisation in a way that enables an ethical culture and responsible corporate citizenship.**

### *Organisational ethics (Recommended practices 10-14)*

The governing body of an NPO should ensure that the organisation's ethics are proactively governed and embedded throughout the NPO. Ethical conduct should be demonstrated not only at leadership level, but also in the organisation's policies, practices, stakeholder relationships and decision-making. As organisations that aim to serve the public good, NPOs are expected to uphold high standards of integrity, fairness and transparency. The governing body should be held accountable for this.

### *Responsible corporate citizenship (Recommended practices 15-18)*

By virtue of their role in addressing social, environmental concerns and community needs, NPOs are integral to civil society. As such, the organisation should adopt practices that promote responsible citizenship, including sound governance over how resources are sourced and allocated, how people are treated, and how the NPO contributes to the greater public interest. These recommended practices are thus an important consideration for NPOs.

## Principle 3: Strategy, performance and sustainable value creation

**Principle 3: The governing body ensures that the organisation's purpose, strategy and business model support performance that creates sustainable value within the organisation's economic, social and environmental context.**

### *Strategy, performance and sustainable value creation (Recommended practices 19-22)*

The founding documents of an NPO define its purpose and intended contribution to public, social or environmental benefit. This aligns with the expectation that organisations create value in an integrated manner, taking into account their economic, societal and environmental context. For NPOs, value creation is measured by the extent to which the organisation delivers on its mission in an impactful and sustainable way. Financial viability is a means towards that end. These recommended practices should be considered with this context in mind.

The governing body is responsible for steering the organisation to achieve this balance—ensuring that social and environmental objectives are met while maintaining financial viability. This includes setting strategic priorities, monitoring outcomes and ensuring that resource allocation supports both purpose and sustainability.

#### Principle 4: Reporting

**Principle 4: The governing body ensures that external reports issued by the organisation enable stakeholders to make informed assessments of how the organisation creates, preserves and erodes value within its economic, social and environmental context over the short, medium and long term.**

##### *Reporting (Recommended practices 23-27)*

NPOs are generally required to prepare and submit certain reports depending on their legal form and registration status. For example, registered NPOs under the NPO Act must submit annual financial and narrative reports to the Department of Social Development. PBOs approved by SARS under the Income Tax Act may have additional reporting obligations.

The governing body should view reporting not just as a compliance exercise, but as an important mechanism for accountability, transparency and stakeholder engagement. The Code recommends several forms of reporting that NPOs should consider, with proportional adaptation based on their nature, size, complexity and public interest impact. These include:

- Annual financial statements: Essential for NPOs to provide a clear view of financial stewardship.
- Integrated reports: While full integrated reporting may not be feasible for smaller NPOs, the underlying principles of integrated thinking, performance transparency and stakeholder responsiveness remain relevant. Larger or more mature NPOs are encouraged to consider issuing an integrated report where appropriate.
- Sustainability reports: Recommended especially where the NPO's mission has significant environmental or social dimensions. These may also be integrated into other forms of reporting.
- Social and ethics committee reports: Applicable to non-profit companies required by law to have a social and ethics committee. However, even where not legally required, voluntary disclosures supporting transparency on ethics, social impact and stakeholder engagement can build trust and legitimacy.

- Remuneration disclosures: While full remuneration reports may not be required or expected, voluntary disclosure of key governance decisions relating to executive pay or director fees can support transparency and donor confidence.
- Corporate governance disclosures: Disclosing the governance framework, roles and key decisions or changes in leadership helps reinforce ethical and effective oversight. Any NPO that wishes to claim application of King V must disclose its implementation using the King V Disclosure Framework.

In all cases, the governing body should ensure that the format and substance of external reports enable stakeholders—including donors, regulators, members and beneficiaries—to make informed assessments of the organisation’s purpose, use of resources; and overall impact over the short, medium and long term.

### Principle 5: Composition of the governing body

**Principle 5: The governing body ensures that its composition is balanced with respect to the mix of competencies, diversity and independence that enables it to discharge its obligations objectively and effectively.**

#### ***Composition (Recommended practices 28-33)***

There is no one-size-fits-all prescription for the size and structure of an NPO’s governing body. The appropriate composition depends on statutory requirements, donor expectations, the nature of the NPO’s activities, and where it is in its growth and lifecycle. The NPO Act does not prescribe specific requirements for governing body composition; instead, governance arrangements are determined by the organisation’s founding document. As such, the recommended practices on composition offer valuable guidance for promoting effective and accountable leadership in the absence of legislated requirements.

The governing body should be composed of individuals with the necessary mix of competencies, diversity and personal qualities to enable it to discharge its responsibilities effectively. A balance between professional expertise and stakeholder insight is often required.

Where governing body members are appointed as representatives of specific stakeholders—such as donors, beneficiaries or affiliated institutions—care should be taken to preserve independence and objectivity in decision making and collective accountability.

NPOs may face challenges attracting independent professionals due to resource limitations or their inability to offer competitive remuneration. However, they are encouraged to approach professional

associations, academic institutions or volunteer networks to source suitable individuals willing to serve, in many instances, pro bono or at minimal compensation. Independence of mind and freedom from conflicts remain critical, regardless of whether members are appointed internally or externally.

To promote continuity and retain institutional knowledge, governing bodies of NPOs should consider staggered rotation of members and put succession plans in place, even if constrained by resource or volunteer availability.

***Nomination, election and development of governing body members (Recommended practices 34-37)***

A formal and transparent process for the nomination, vetting and appointment of governing body members can help promote fair and competency-based selection. Even where governing body members are elected or nominated by external parties, the governing body should seek to influence the process by clearly articulating the competencies and diversity needed.

Consideration should be given to ensure an effective induction and thereafter ongoing professional development, as some of these governing body members may not have the required level of skill or knowledge of this role and their attendant duties and responsibilities.

***Independence and conflicts (Recommended practices 38-44)***

Independence criteria should be considered in the composition of NPO governing bodies, as objective oversight and freedom from undue influence strengthens credibility and stakeholder trust.

Where members of the governing body represent donors, partner organisations, beneficiaries or other constituents, the NPO should take care to proactively manage actual and perceived conflicts of interest in line with these recommended practices. Examples include the awarding of contracts or employment to family members, or decisions that may benefit a community or organisation with which a governing body member is personally affiliated.

***Chairperson and lead independent member of the governing body (Recommended practices 45-50)***

An independent and suitably qualified person should ideally serve as chairperson of the governing body. Where this is not feasible, the chairperson should at a minimum demonstrate impartiality, integrity and the ability to facilitate objective discussion and balanced decision making.

Where an NPO’s governing body includes a significant number of executive or non-independent members, it may be beneficial to designate a lead independent member as recommended in the Code to strengthen governance oversight.

### **Principle 6: Committees of the governing body**

**Principle 6: The governing body ensures that arrangements for delegation to committees and individuals within its own structures promote the objective and effective discharge of its obligations.**

#### ***Committees of the governing body (Recommended practices 51-75)***

Due to their diversity in size, complexity and resource availability, not all NPO governing bodies will have the capacity to establish formal committees. Where this is the case, the governing body retains full responsibility for matters typically delegated to committees and should ensure that such matters still receive adequate attention, even if through dedicated governing body discussions or the delegation to individual governing body members to lead oversight in specific areas.

Where NPOs are larger or subject to more complex oversight requirements – such as those incorporated as non-profit companies or those receiving substantial funding – it is good practice to establish committees to support the effective execution of governance duties. The following committees may be relevant, depending on the nature, complexity and requirements of the NPO:

- **Audit committee:** Not a legal requirement for all NPOs, but advisable where the organisation receives significant funds or requires annual audits to satisfy funders. Where such a committee is not in place, financial oversight should be explicitly exercised by the full governing body or a designated individual with suitable financial expertise.
- **Committee responsible for risk governance:** Rare in smaller NPOs but may be necessary in larger ones. Otherwise, the governing body should periodically consider organisation-wide risks in its normal course of oversight.
- **Committee responsible for nomination governance:** Sometimes absent in small NPOs. However, a transparent and documented nominations and appointment process should be put in place to ensure objective and skills-based selection of governing body members.
- **Committee responsible for remuneration governance:** Typically, unnecessary where governing body members act in a voluntary capacity and staff remuneration is uncomplicated. However, in larger NPOs with paid executives or complex compensation structures, such a committee may be warranted.

- Social and ethics committee: Required for some non-profit companies that exceed the public interest score threshold under the Companies Act. Even where not mandatory, the practices of such a committee may help NPOs reflect on matters of ethics, stakeholder impact and organisational culture.

### Principle 7: Appointment and delegation to management

**Principle 7: The governing body ensures that the appointment of and delegation to management promote operational effectiveness and that the respective roles and decision-making powers of the governing body and management are clearly defined.**

#### ***CEO appointment and role (Recommended practices 76-80)***

Where NPOs do appoint executives – such as a CEO – the governing body should ensure that the role and responsibilities of these positions are clearly documented and that performance is monitored in line with the organisation’s purpose and values. The governing body should also remain accountable for strategic oversight and avoid becoming involved in day-to-day management decisions unless explicitly required by the circumstances.

#### ***Delegation to management (Recommended practices 81-83)***

Smaller NPOs may not have full-time or formally appointed executive management and may rely heavily on volunteers, part-time staff or a single executive officer to carry out day-to-day operations. In such cases, clear delegation of responsibilities and defined reporting lines are especially important to avoid confusion.

Even in the absence of formal management, the governing body retains ultimate responsibility and should ensure that appropriate oversight mechanisms are in place for operational activities, including financial management, programme implementation and stakeholder communication.

#### ***Professional corporate governance services to the governing body (Recommended practices 84-90)***

Most NPOs do not appoint a full-time company secretary. Nonetheless, the governing body should ensure that it has access to adequate administrative and governance support, whether through a designated individual responsible for keeping minutes and ensuring compliance with legal filings or through outsourced providers. As the NPO grows, it may be necessary to formalise this role further.

### Principle 8: Risk

**Principle 8: The governing body governs risk in a way that enables the organisation to sustain and optimise its strategy and objectives.**

***Risk (Recommended practices 91-94)***

NPOs face a variety of risks, including funding uncertainty, lack of resourcing, reputational risk, compliance risk and delivery risk in meeting their objectives. Even though smaller NPOs may not have formalised risk policies and structures, the governing body remains responsible for overseeing risk in a manner proportionate to the organisation’s size and complexity.

At a minimum, the governing body should regularly consider the most significant risks that could affect the NPO’s ability to achieve its purpose and ensure that basic mitigating controls are in place. As the NPO grows, it should progressively formalise its approach to risk governance, including assigning responsibility for risk oversight and documenting key risks and responses in a risk register.

**Principle 9: Compliance**

**Principle 9: The governing body governs compliance with applicable laws and adopted policies, non-binding rules, codes and standards in a way that promotes ethics and responsible corporate citizenship.**

***Compliance (Recommended practices 95-99)***

The governing body of an NPO is accountable for ensuring that the organisation complies with all applicable laws and regulations relevant to its form of incorporation and sector of operation. This includes, where applicable, the Act, the Companies Act, tax legislation (especially if holding PBO status) and other sector-specific regulations or grant conditions.

While smaller NPOs may not have dedicated compliance functions or policies, it remains essential for the governing body to stay informed about the organisation’s legal obligations and to ensure that a basic compliance framework and processes are in place—such as accurate record keeping, timely submissions to regulators and adherence to donor conditions. Where needed, NPOs may rely on external service providers or advisors for compliance support.

**Principle 10: Data, information and technology**

**Principle 10: The governing body governs data, information and technology in a way that enables the organisation to sustain and optimise its strategy and objectives.**

### ***Data, information and technology (Recommended practices 100-110)***

The governing body should ensure that the NPO appropriately governs its data, information and use of technology to support its objectives, enhance effectiveness and protect stakeholder data. Even in smaller NPOs with limited digital infrastructure, minimum standards of information governance—such as secure storage of donor and beneficiary information, basic data privacy and appropriate access controls—should be upheld.

As the NPO grows or relies more heavily on digital systems (e.g. for fundraising, project or case management or reporting), the governing body should oversee that the use of technology aligns with the organisation’s strategic intent and that related risks are identified and managed. This includes adopting cost-effective technologies that improve efficiency and enable better stakeholder engagement, as well as ensuring compliance with relevant legislation. As the NPO grows, these policies and structures should mature.

### **Principle 11: Remuneration**

**Principle 11: The governing body ensures that the organisation remunerates fairly, responsibly and transparently to promote sustainable value creation by the organisation within its economic, social and environmental context.**

### ***Remuneration (Recommended practices 111-118)***

Remuneration in NPOs is typically less complex than in “for-profit” organisations, often due to limited resources and the nature of the work being mission-driven rather than financially incentivised.

Nevertheless, the governing body should ensure that remuneration is fair, responsible and aligned with the NPO’s values, purpose and public interest role. Compensation practices should support the attraction and retention of capable individuals, while remaining justifiable to stakeholders such as donors and the public.

While most NPOs may not require a formal remuneration committee, those with sufficient size and complexity should consider establishing one. Others may address remuneration matters through the full governing body or an ad hoc subcommittee, or by combining such responsibilities with another committee. A basic remuneration policy—outlining principles for determining employee compensation, increases and performance recognition—can help ensure fairness, transparency and consistency.

Given the typically simple remuneration structures in NPOs, the detailed remuneration disclosure and implementation reporting recommended in the Code are generally not necessary. However, NPOs that are incorporated as non-profit companies may be required to disclose directors' remuneration in their annual financial statements. This reinforces the need for transparency and accountability, particularly where donor funding and public interest are involved.

### Principle 12: Assurance

**Principle 12: The governing body ensures that assurance functions and services promote an effective internal control environment and safeguard the integrity of external reports issued by the organisation.**

#### *Assurance (Recommended practices 119-131)*

NPOs may not require formal assurance arrangements, particularly at a smaller scale. However, the governing body should still take reasonable steps to ensure the reliability of financial and external reporting and the effectiveness of internal controls. Combined assurance, while applied proportionally, is useful where different service providers and assurance functions are involved.

Internal audit may not be necessary for small NPOs, but independent ad hoc assurance over key risk areas can be considered periodically—particularly where donor requirements or public interest considerations apply.

Larger or more complex NPOs, or those incorporated as non-profit companies and exceeding certain thresholds, should consider some arrangements for internal audit and may be subject to mandatory external audits. Even where not legally required, undergoing an external audit or independent financial review is recommended, especially where donor funding, public accountability or beneficiary interests are at stake.

### Principle 13: Stakeholders

**Principle 13: The governing body adopts a stakeholder-inclusive approach in the execution of its duties in the long-term best interests of the organisation within its economic, social and environmental context.**

#### *Stakeholder relationships (Recommended practices 132-136)*

Stakeholder engagement is central to the success, credibility and legitimacy of an NPO. Given their role in advancing public interest objectives and their dependence on a broad range of stakeholders, the governing

body should ensure that stakeholder relationships are managed ethically, transparently and in a way that supports the NPO's purpose. NPO stakeholders include donors, beneficiaries, employees, volunteers, partners, regulators, members, media, clients or customers, communities, suppliers and creditors.

The nature and frequency of engagement should be tailored to the NPO's size, operating model and resource levels. While smaller NPOs may rely on informal channels of communication, more established organisations may adopt structured engagement strategies or stakeholder reporting mechanisms.

### ***Shareholder engagement (Recommended practices 137-144)***

Some NPOs have members, while others rely primarily on donors or funders as the providers of capital. Where the NPO has legal members, the governing body should ensure that member meetings are properly constituted and that members are kept informed of key developments and performance. The recommended practices of the Code can be used for this purpose.

Whether an NPO is required to hold an annual general meeting (AGM) depends on its form of incorporation and governing document, but even if not mandatory, an AGM or equivalent member or stakeholder meeting is considered good practice for accountability and transparency.

### ***Relationships within groups of organisations (Recommended practices 145-150)***

Some NPOs form part of a wider group structure, such as umbrella organisations, federated networks or affiliated international bodies, in which case these recommended practices should be considered. In such cases, the governing body of each NPO remains accountable for its own organisation's strategy, resources and outcomes, even where policies or operational support may be centrally coordinated. It is important to clearly define the roles, responsibilities and decision-making authority between the various entities in the group. Where applicable, the governing body should ensure that inter-group arrangements, including funding flows, shared services, disclosure of information and branding, are formalised through appropriate agreements.

## **Conclusion**

Good governance is essential for NPOs to fulfil their purpose, inspire stakeholder confidence and ensure their legitimacy.

In a dynamic and resource-constrained environment, NPOs play a vital role in addressing social, environmental and developmental challenges. Sound governance is essential to ensure that NPOs remain

relevant, credible, accountable and effective in fulfilling their purpose. By embracing King V thoughtfully and contextually, NPOs can enhance their resilience, legitimacy and long-term impact.